CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidated Statement of Income
For The Nine Months Ended September 30, 2011

OPERATING REVENUE
Local Service Revenue
Local Termination Revenue
Access Service Revenues
Toll Resale Revenue
Video Service Revenue
DSL & Internet Revenue
CLEC Revenue
Tandem Revenue
Miscellaneous Revenues
Recovered Uncollectibles

Total Operating Revenues

OPERATING EXPENSES
Plant Specific
Plant Non-Specific
Network and Other
Depreciation and Amortization
Customer Operations
Corporate Operations

Total Operating Expenses

OPERATING INCOME

OPERATING TAXES
State and Local Taxes
Federal Income Taxes
Total Operating Taxes

NET OPERATING INCOME

OTHER INCOME AND EXPENSES
Interest & Dividends
Gain on Sale of GLC Common Stock
State Income Tax
Federal Income Tax

Total Other Income & Expense

INCOME BEFORE FIXED CHARGES

FIXED CHARGES - Interest Expense

NET INCOME

EARNINGS PER SHARE

The accompanying notes are an integral part of these consolidated financial statements

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
For The Nine Months Ended September 30, 2011

		Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2010 (as previously reported)	$				
Correction of Accounting Error (Note 12)					
BALANCE AT DECEMBER 31, 2010 (as restated)					
Net Income For the Period					
BALANCE AT SEPTEMBER 30, 2011	$				

The accompanying notes are an integral part of these consolidated financial statements

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For The Nine Months Ended September 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income
Adjustments to reconcile net income to
net cash provided by operations:
(Gain) on Sale of GLC Common Stock
Depreciation
Amortization
Patronage Income
Deferred Income Taxes
(Increase) Decrease in:
Trade Accounts Receivable
Materials & Supplies
Prepaid Expenses
Increase (Decrease) in:
Trade Accounts Payable
Advance Billings and Payments
Accrued Interest
Other Accrued Expenses
Deferred Revenue
NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment
Plant Under Construction
Proceeds from Sale of GLC Common Stock
Decrease (Increase) in Long Term Investments
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments on Long-Term Debt
Common Stock Dividends
NET CASH USED BY FINANCING ACTIVITIES

NET INCREASE (DECREASE) IN CASH

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS - END OF PERIOD

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash Paid For:
Interest
Federal Income Taxes

The accompanying notes are an integral part of these consolidated financial statements

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Clinton County Telephone Company (CCTC) and its wholly-owned subsidiaries: Westphalia Telephone Company (WTC), Westphalia Communications, Inc. (WCI) and Westphalia Broadband, Inc. (WBI), collectively referred to as "the Company." All material inter-company accounts and transactions are eliminated in consolidation.

The accounting records of the Company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Public Service Commission of Michigan, which conform to accounting principles generally accepted in the United States of America (US GAAP).

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Toll service revenues, access revenues and local service revenues are recognized when earned, regardless of the period in which they are billed. Amounts billed or paid in advance of revenue recognition are recorded as advanced billing or deferred revenue.

Beginning in 1984, the Company began to provide access services to common (long distance) carriers to access the exchange of the Company. The Company now receives settlements for providing access service from the National Exchange Carrier Association (Interstate). Interstate access settlements are based on average nationwide settlements. Intrastate access revenues are on a bill and keep arrangement.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and money market funds. Cash accounts are at financial institutions that are covered by the Federal Deposit Insurance Corporation (FDIC) in the amount of During the year, the Company may have deposits in excess of FDIC insurance coverage.

Materials and Supplies

Materials and supplies are valued at the lower of current market value or cost on a specific identification basis.

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms for the industry. The Company generally does not require collateral or other security on trade accounts receivable.

The Company maintains an allowance, when considered necessary, for estimated losses resulting from the inability of its customers to make required payments. The allowance is estimated based upon historical experience of write-offs, the level of past due amounts, information known about specific customers with respect to their ability to make payments and future expectations of conditions which might impact the collectability of accounts. Actual results could differ from those estimates. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be recorded by management.

Investment in Unconsolidated Affiliate

The Company's investment in unconsolidated affiliate is accounted for under the cost method as described in Note 2. The Company does not have voting control of the affiliate.

Telephone Plant and Depreciation

Additions to telephone plant and replacements of significant units of property are capitalized at their original cost. When telephone plant is retired, its cost is removed from the asset account and charged against the depreciation reserve, together with any related salvage and removal costs. No gains or losses are recognized in connection with routine retirements of depreciable property except for land and artwork.

Depreciation is computed using the straight-line method for financial reporting purposes by the application of class or overall composite rates, based on the estimated service lives of the various classes of depreciable telephone property. These composite rates were 5.88% for 2011. Statutory rates and lives are used for income tax purposes.

Intangible Assets

Costs to issue the long-term debt have been capitalized and are amortized on a straight-line basis over the life of the loan. Amortization expense related to the deferred loan costs is expected to be monthly through February, 2015 based on the Company's deferred loan costs as of September 30, 2011.

The Company entered into a contract with to to provide video services. Costs related to the contract are amortized on a straight-line basis. Amortization expense related to the contract is expected to be monthly through June, 2016 based on the Company's deferred contract costs as of September 30, 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

Long-lived assets and identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the asset's fair value.

Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and state jurisdictions as applicable. The statute of limitations is generally three years for federal returns and four years for Michigan returns.

Deferred income taxes are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the enactment date. To the extent that available evidence about the future raises doubt about the realization of a deferred income tax asset, a valuation allowance is established by management.

Advertising

The Company expenses advertising costs as incurred. The Company's advertising expenses were not material in 2011.

Subsequent Events

Management of the Company has evaluated subsequent events through April 5, 2012, the date which the financial statements were available to be issued.

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

2. INVESTMENTS AND PURCHASE OF COMMON STOCK

The Company has invested in Great Lakes Comnet, Inc. (GLC), a company created by a group of independent telephone companies to offer network and toll services. This investment is recorded at cost.

The Company has offset accounts receivable with accounts payable related to a flow through billing arrangement with GLC. Amounts due to GLC are not payable until collected from various carriers.

GLC purchased all of the issued and outstanding stock in the Company effective September 30, 2011.

In connection with the loan agreement with Rural Telephone Finance Cooperative (RTFC), the Company was required to purchase securitized credit certificates (SCC) equal tc of the loan proceeds. These certificates are returned gradually as the loan principal balance is paid. The balance of SCC and patronage investments amounted tc as of September 30, 2011.

In addition to the SCC requirement, RTFC issues annual patron capital certificates that will be paid in future years. The balance of these capital certificates amounted to as of September 30, 2011.

Prior to executing the loan agreement with RTFC, the Company had secured financing through CoBank. Before refinancing the loans with RTFC, the Company had accumulated patronage capital and has recorded as of September 30, 2011.

The Company purchases equipment and wireless services through the National Rural Telecommunications Cooperative (NRTC). As part of that cooperative the Company has recorded patronage capital o as of September 30, 2011.

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

3. RELATED PARTY TRANSACTIONS

In the ordinary course of operations, the Company transacts business with entities whose owners are members of the Company's Board of Directors. Expenses incurred to these related parties for the nine months ended September 30, 2011 are summarized as follows:

Lehman, Wesley & Associates
Pohl Oil Company
Westphalia Electric, Inc.

4. PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment as of September 30, 2011 is summarized as follows:

Land
Building and building improvements
Fiber network
Buried cable and drops
Switching equipment
Circuit equipment
DSL
Video head end
Paystations and poles
Computer equipment
Office furniture and equipment
Vehicles

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

5. LONG-TERM DEBT

Long-term debt payable to RTFC consists of the following at September 30, 2011:

Note	, interest at	Matures February 28, 2015.	$
Note	, interest at	Matures February 28, 2015.	
Note	interest at	Matures February 28, 2015.	
Less: current maturities			
Long-term debt			$

The RTFC debt requires quarterly principal payments ranging from plus interest through February 28, 2015.

The RTFC debt is secured by all personal property of the Company and requires compliance with positive and negative financial covenants as defined in the loan agreement.

Future principal payments on long-term debt for the years ending December 31 are as follows:

2011	
2012	
2013	
2014	
2015	
	$

6. INCOME TAXES

Income tax expense consists of the following for the nine months ended September 30, 2011:

	Operating	Non-operating
Federal - Current		
Federal - Deferred		
State of Michigan		
Total income tax expense		

6. INCOME TAXES (CONTINUED)

The amount shown for federal income tax expense on the consolidated statement of income is different than amounts computed by applying the statutory federal income tax rate to income before income taxes. A reconciliation of such amounts for the nine months ended September 30, 2011 is as follows:

Income tax expense at federal statutory rates
Utilization of capital loss carryforwards reduced by valuation allowance
Other

Federal Income Tax Expense

Temporary differences between the consolidated financial statement amounts and income tax bases of assets and liabilities that give rise to significant portions of the net deferred income tax asset and liability relate to the following as of September 30, 2011:

Bad debt allowance
Accrued compensation

Current Net Deferred Income Tax (Asset) Liability

Depreciation
Net operating loss carryforward
Capital loss carryforward - Federal
Capital loss carryforward - State
Valuation allowance

Long-Term Net Deferred Income Tax (Asset) Liability

The net operating loss (NOL) and capital loss (CL) carryforwards expire as follows, if not previously utilized:

	NOL	CL
2027		
2028		
2029		
2030		
2031		

CLINTON COUNTY TELEPHONE COMPANY AND SUBSIDIARIES

Notes To Consolidated Financial Statements

6. INCOME TAXES (CONTINUED)

Realization of the gross deferred income tax assets is primarily dependent upon generating sufficient taxable income prior to expiration of the loss carryforwards. In assessing the realizability of deferred income tax assets, management follows the guidance contained within US GAAP, which requires that deferred income tax assets be reduced by a valuation allowance if, based on the weight of available evidence, it is "more likely than not" that some portion or all of the deferred income tax assets will not be realized. Management has concluded that, following the guidance of US GAAP, it is appropriate to record a valuation allowance equal to the total deferred income tax assets related to capital loss carryforwards at September 30, 2011.

7. OPERATING LEASE COMMITMENTS

The Company leases office space under an operating lease which requires monthly payments of through September 30, 2014. Lease expense amounted to for the nine months ended September 30, 2011.

Future minimum lease payments on noncancelable operating leases are as follows:

2011
2012
2013
2014

8. RETIREMENT PLAN

The Company maintains a defined contribution 401(k) plan which allows the Board of Directors to match contributions and/or declare profit sharing contributions. The Board elected to suspend matching and profit sharing contributions and accordingly, there were no retirement plan contributions recorded for the nine months ended September 30, 2011.

9. CABS DISPUTES

Interexchange carriers continue to dispute access charges from local exchange carriers. Such charges are evaluated by management and recorded in the financial statements when believed to be fixed and determinable.

10. ADDITIONAL DISCLOSURES

The Company has entered into several joint ventures with GLC. One venture involves the leasing of a host Siemans switch from GLC. The new host/tandem switch provides all of the local services for the Westphalia exchange. The monthly cost for the lease of the host switch is Total expense under this agreement amounted to for the nine months ended September 30, 2011.

The Company has also agreed to provide certain operations and maintenance services to GLC for the tandem switch and STP equipment. This agreement provided the housing and maintenance of the tandem switch and STP in the Company's building. The Company also provides limited technical services that are billed on an hourly basis. The total amount received from GLC for this contract amounted tc for the nine months ended September 30, 2011.

The Company has built a fiber ring to connect to the GLC fiber routes in Portland and St. Johns. These fiber routes will be used with incremental fibers on the GLC fiber backbone to form a self-healing fiber ring from Westphalia to St. Johns to Lansing to Portland and back to Westphalia.

In addition to the contract mentioned above, the Company receives settlements for transporting traffic from the GLC fiber route and terminating that traffic at the GLC tandem.

11. PUBLIC ACT 182 – INTRASTATE ACCESS REFORM

In December 2009 Public Act 182 became law and mandated intrastate access rates restructuring. The new law creates a pool that will keep the Company whole for four years and transition the revenue loss over the following eight years based upon losses in access line counts. Currently the pool does not offer protection to CLEC billing and WBI will have to implement rate reductions over the next five years.

12. CORRECTION OF ACCOUNTING ERROR

As of December 31, 2010, the Company's valuation allowance against deferred income tax assets amounted tc The valuation allowance related to capital loss carryforwards for federal and state income tax purposes. The valuation allowance was recorded as accumulated other comprehensive income. US GAAP requires a valuation allowance to increase income tax expense. Accordingly, this amount was restated to decrease retained earnings as of December 31, 2010. This restatement had no impact on previously reported total stockholders' equity.

- SUPPLEMENTAL MATERIAL -

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidating Balance Sheet
September 30, 2011

ASSETS

		Clinton County Telephone	Westphalia Telephone Company	Westphalia Communications Inc.	Westphalia Broadband Inc.	Eliminations	Total
CURRENT ASSETS							
Cash and Cash Equivalents	$						
Telecommunications Accounts Receivable Less Allowances							
Other Accounts Receivable							
Accounts Receivable - Affiliated Company							
Materials and Supplies							
Prepaid Expenses							
Prepaid Income Taxes							
Deferred Income Taxes		-					
Total Current Assets	$	-					
INVESTMENTS AND OTHER ASSETS							
Notes Receivable - Affiliated Company	$						
Investments in Affiliated Co.							
Securities Available for Sale							
Other Investments							
Intangible Asets, Net of Amortization							
Total Investments and Other Assets	$						
PROPERTY, PLANT & EQUIPMENT							
Telecomm. Plant in Service	$						
Plant Under Construction							
Other Plant in Service							
Less Accumulated Depreciation							
Net Property, Plant & Equipment	$						
TOTAL ASSETS	$						

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidating Balance Sheet
September 30, 2011

LIABILITIES & STOCKHOLDERS' EQUITY

	Clinton County Telephone	Westphalia Telephone Company	Westphalia Communications Inc.	Westphalia Broadband Inc.	Eliminations	Total
CURRENT LIABILITIES						
Accounts Payable - Trade						
Accounts Payable - Affiliated Company						
Advance Billing & Payments						
Accrued Interest						
Other Accrued Liabilities						
Accrued Income Taxes						
Deferred Revenue						
Current Maturities - Long-Term Debt						
Total Current Liabilities						
LONG-TERM DEBT						
RTFC						
Affiliated Company						
Less : Current Portion						
Total Long-Term Debt						
DEFERRED INCOME TAXES						
STOCKHOLDERS' EQUITY						
Common Stock						
Dividends						
Retained Earnings - Beginning						
Net Income for the Period						
Unrealized Gain (Loss) on Securities						
Total Stockholders' Equity						
TOTAL LIABILITIES AND EQUITY						

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidating Statement of Income
For The Nine Months Ended September 30, 2011

	Clinton County Telephone	Westphalia Telephone Company	Westphalia Communications Inc.	Westphalia Broadband Inc.	Eliminations	Total
OPERATING REVENUE						
Local Service Revenues						
Local Termination Revenue						
Access Service Revenue						
Toll Resale Revenue						
Video Service Revenue						
DSL & Internet Revenue						
CLEC Revenue						
Tandem Revenue						
Miscellaneous Revenues						
Uncollectible Revenue						
Total Operating Revenues						
OPERATING EXPENSES						
Plant Specific						
Plant Non-Specific						
Network and Other						
Depreciation and Amortization						
Customer Operations						
Corporate Operations						
Toll Resale Expense						
Federal Income Taxes						
Other Operating Taxes						
Total Operating Expenses						
NET OPERATING INCOME						
OTHER INCOME AND EXPENSES						
Interest & Dividends						
Capital Gain/(Loss)						
State Income Tax						
Federal Income Tax						
Total Other Income & Expense						
INCOME BEFORE FIXED CHARGES						
FIXED CHARGES						
Interest Expense						
NET INCOME BEFORE SUBSIDIARIE						
NET INCOME FROM SUBSIDIARIES						
NET INCOME						

CLINTON COUNTY TELEPHONE COMPANY
AND SUBSIDIARIES
Consolidating Statement of Cash Flows
For The Nine Months Ended September 30, 2011

		Clinton County Telephone	Westphalia Telephone Company	Westphalia Communications Inc.	Westphalia Broadband Inc.	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Net Income	$						
Adjustments to reconcile net income to net cash provided by operations:							
(Gain) on Sale of GLC Common Stock							
Net income from subsidiaries							
Depreciation							
Amortization							
Patronage income							
Deferred Income Taxes							
(Increase)/Decrease in:							
Trade Accounts Receivable							
Intercompany Accounts							
Materials & Supplies							
Prepaid Expenses							
Increase/(Decrease) in:							
Trade Accounts Payable							
Advance Billings and Payments							
Accrued Interest							
Other Accrued Expenses							
Deferred Revenue							
NET CASH PROVIDED BY OPERATING ACTIVITIES	$						
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of Property and Equipment	$						
Plant Under Construction							
Proceeds from sale of investments							
Decrease/(Increase) in Long Term Investments							
NET CASH PROVIDED BY INVESTING ACTIVITIES							
CASH FLOWS FROM FINANCING ACTIVITIES							
Principal payments on Long-Term Debt							
Common Stock Dividends							
NET CASH USED BY FINANCING ACTIVITIES							
NET INCREASE/(DECREASE) IN CASH							
CASH AND CASH EQUIVALENTS - BEGINNING							
CASH AND CASH EQUIVALENTS - ENDING							